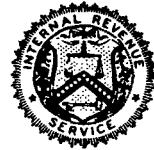


INDUSTRY CIRCULAR

OFFICE OF THE COMMISSIONER OF INTERNAL REVENUE
ALCOHOL AND TOBACCO TAX DIVISION



WASHINGTON 25, D. C.

Industry Circular No. 60-21

June 2, 1960

NEW REGULATIONS COVERING DISTRIBUTION AND USE OF TAX-FREE ALCOHOL

Users of tax-free alcohol
and others concerned:

Purpose. The purpose of this industry circular is to acquaint you with proposed new regulations relating to the distribution and use of tax-free alcohol.

Background. You will recall that, pursuant to Public Law 85-859, you were required to file new applications for an industrial use permit and a withdrawal permit (or permits) in order to withdraw and use tax-free alcohol on and after July 1, 1959. The regulations covering such requirements are contained in Subpart N of 26 CFR Part 170. Except as provided in that subpart, you were to continue using tax-free alcohol under the applicable provisions of 26 CFR Part 182, Industrial Alcohol, until complete new regulations could be issued. Such new regulations, designated as 26 CFR Part 213, are now in process and, it is anticipated, will become effective as of July 1, 1960. The major changes in procedures and requirements are highlighted in the paragraphs which follow.

Qualification. (a) Industrial use permit. It will not be necessary that you file a new application for an industrial use permit in order to continue present operations when the new regulations become effective. Unless a permit has been issued to you since July 1, 1959, the assistant regional commissioner (alcohol and tobacco tax) may issue you a permit sometime between March 15 and April 30, 1961, to become effective May 1, 1961, pursuant to the application which you filed before July 1, 1959. This permit will then remain in effect unless suspended, or until revoked, surrendered, or otherwise terminated. Those who have already received an industrial use permit pursuant to an application filed under Part 170 will continue to operate under that permit; it too, will remain in effect. Your new permit should be posted, available for inspection, on your premises. All industrial use permit requirements will be found in Subpart D of the new regulations.

(b) Withdrawal permits. If you received a new withdrawal permit since July 1, 1959, such permit will expire on April 30, 1961. You should file a renewal application on Form 1450 not later than January 10th, together with your report on Form 1451 due on

that date. Those who have not been issued a new withdrawal permit pursuant to the application filed on or before July 1, 1959, will receive it at the same time as the new industrial use permit. These withdrawal permits will be effective from May 1, 1961, through April 30, 1962. In either case, you may continue to withdraw under your existing withdrawal permit until May 1, 1961. From then on, withdrawal permits will be renewed each year and will carry an April 30 expiration date. The renewal application should always accompany the report on Form 1451. The regulations will no longer require that expired withdrawal permits be surrendered for cancellation. However, where the industrial use permit is automatically terminated, revoked, or voluntarily surrendered, the withdrawal permit should be returned immediately to the assistant regional commissioner. Users will be permitted to withdraw as much as one-sixth (rather than one-twelfth) of their annual allowance, and, if one-sixth of the annual allowance is less than one drum they may be permitted to withdraw a quantity not to exceed one drum during any one month. Otherwise, if a user desires to withdraw more than one-sixth of his annual allowance during any one month, he must justify his needs for the additional quantity. The penal sum of the bond must, of course, be sufficient to cover all tax-free alcohol on hand, in transit, and unaccounted for at any one time. If you are limited under your current withdrawal permit to one-twelfth of your annual allowance during any one month and you wish to withdraw more than that quantity during a month for the period from July 1960 through April 1961 it will be necessary that you first file application for, and obtain, an amended withdrawal permit.

(c) Changes after original qualification. When there is any change in name, trade name, or location of the permittee, or any other change that affects the terms of the industrial use permit, another application on Form 2600 must be filed. Where there is a change in the information contained in an application, but which does not affect the permit itself, you must file a written notice, in duplicate, within 10 days of the change, giving the assistant regional commissioner the details of the change. As at present, where there is a change in proprietorship (by sale or transfer of the business, reorganization, the taking in of a new partner, etc.), the new proprietor must qualify in the same manner as any other new permittee.

Use of tax-free alcohol. The uses of tax-free alcohol have been somewhat liberalized. For example, a clinic operated for charity may require patients to pay a fee or other charge, provided such fee or charge is not made to cover medicine compounded with tax-free alcohol. For details of authorized uses of tax-free alcohol, by the various categories of permittees, see sections 213.101 to 213.108, inclusive.

Losses. Provisions for losses, and claims for losses, are basically unchanged. However, the minimum quantity for which claim is routinely required is being raised from 1 proof gallon to 5 proof gallons, and a new form (Form 2635) is being provided for use in filing claims. You will receive copies of Form 2635 from your assistant regional commissioner.

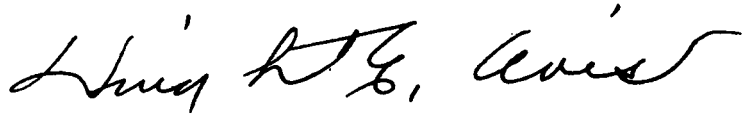
Destruction, disposition, return, etc. Subpart K of the new regulations contains provisions for the destruction, return, re-shipment, and other disposition of tax-free alcohol, the conditions under which such dispositions can be made, and the procedure to be followed. Where tax-free alcohol is to be destroyed or returned, an application must first be filed with, and approved by, your assistant regional commissioner. Where tax-free alcohol is to be returned to a distilled spirits plant, the proprietor of such plant must first agree to the return.

Form 1473. Form 1473 will be used, in lieu of Form 1440, for shipments of tax-free alcohol. You will receive the original and one copy with the shipment of tax-free alcohol, will receipt for any losses on both, will forward the original to the assistant regional commissioner designated on the form, and will retain the copy for your records. If you recover tax-free alcohol and ship it to a distilled spirits plant for redistillation, you will prepare Form 1473, to cover such shipment, in accordance with the instructions accompanying the form. If needed, a supply of Forms 1473 for this purpose may be obtained from your assistant regional commissioner.

Records. Records required to be maintained must be in sufficient detail (see section 213.171) to enable verification of each transaction and must be maintained for a period of three years after the date of the report covering the transaction or operation. On approval, photographic copies of records may be retained in lieu of the original records (see section 213.176).

Reports. Form 1451 has been revised and will be required to be filed annually instead of monthly. The annual filing will be on a calendar year basis. The annual report submitted as of December 31, 1960, need show monthly figures for only the months of July to December, inclusive, since you will have submitted monthly reports for the period from January to June, inclusive, under existing regulations. However, since you must complete the annual totals on the report, you may prefer to enter all monthly totals for the year, and add them directly on the form. We will not object if you do complete the entire form in this manner. The assistant regional commissioner will supply you with copies of the revised form.

Inquiries. Inquiries concerning this industry circular should refer to its number and should be addressed to your assistant regional commissioner (alcohol and tobacco tax).



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